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News Release

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2 indicted for bank fraud, money laundering

A 50-year-old Andover man and a 55-year-old Minnetonka man were both indicted this week in federal court on 21 counts of bank fraud and other charges.

Eric R. Krahnke and Michael I. Striker were each charged Aug. 19 in Minneapolis on the 21 counts, as well as one count of conspiracy to commit bank fraud and one count of money laundering.

Their indictment alleges that from March 5, 2003, to Oct. 31, 2003, Krahnke and Striker knowingly and willfully conspired with each other to execute and attempt to execute a scheme to defraud and to obtain moneys, funds, credits, assets, securities and other property from a financial institution by means of false and fraudulent pretenses.

The object of the conspiracy, the indictment alleges, was to defraud Associated Bank and to obtain money in the form of residential real estate loans that generated cash back to Striker, and concealed fees and commissions to Krahnke.

Krahnke was a construction loan officer at Associated Bank, and was also the owner of an independent mortgage brokerage company called Worldwide Mortgage & Investments. Striker was an Associated Bank customer of Krahnke's, and was the owner of a real estate company called U.S. Equities of Minnesota.

The indictment alleges that Striker submitted at least 21 real estate loan applications to Krahnke, which were processed, accepted and disbursed in the aggregate amount in excess of \$4 million. Striker obtained more than \$724,000 at closing on the loans.

In connection with the loan applications, Striker submitted false and misleading information that overstated his and U.S. Equities' financial condition. The indictment also alleges that Striker caused to be submitted, and Krahnke knowingly accepted, inflated appraisals for the underlying properties that were above their true market value. The inflated appraisals resulted in higher gross loan amounts, which allowed the defendants to obtain money.

Krahnke, the indictment alleges, manipulated the bank's internal loan approval process and marked loans as approved when they were not. Krahnke also allowed Striker to receive 100 percent of each loan amount in a single distribution, instead of the standard practice for a construction loan in which the borrower receives installment payments.

Although the loans were represented to be for the purpose of construction financing, Striker, the indictment alleges, did little, if any, of the rehab construction work he said he was going to do, and instead used the funds for payment of other expenses and debts unrelated to the purchased properties, including debts that he owed on other real estate loans.

In the case of many of the loans, the properties were not vacant rehab properties, but rather were homes that financially-distressed homeowners were still living in. The homeowners had conveyed their title to Striker, or the business that Striker was working with, and thought that Striker was helping them to stay in their homes. However, Striker was falsely representing to the bank an intention to rehab and re-sell these properties.

Krahnke received commissions from the bank for originating the loans, but in addition, Striker agreed to pay, and Krahnke received, a broker fee in the amount of 3 percent of the net loan amount, even though the loan was not originated through a broker. This broker fee was made payable to Striker's company, Worldwide Mortgage, and was secretly owned by Krahnke.

The indictment also alleges that Striker purchased and gave Krahnke a Rolex-brand watch worth several thousand dollars, which Krahnke knew was in violation of the bank's code of conduct concerning bribes from a customer.

If convicted, Krahnke and Striker each face a potential maximum penalty of 30 years on each bank fraud count, 30 years on the conspiracy count and 10 years on the money laundering count. All sentences are determined by a federal district court judge.

This case is the result of an investigation by the Internal Revenue Service-Criminal Investigation Division and the Federal Bureau of Investigation, and is being prosecuted by Assistant United States Attorney William J. Otteson.

An indictment is a determination by a grand jury that there is probable cause to believe that offenses have been committed by the defendant. The defendant, of course, is presumed innocent until he or she pleads guilty or is proven guilty at trial.